Response to Questions for the Record. Social Security Subcommittee, Committee on Ways and Means. Hearing on "What Workers Need to Know About Social Security as They Plan for Retirement." July 29, 2014.

Andrew G. Biggs, Ph.D. Resident Scholar, American Enterprise Institute

1. A number of recent proposals from Members of the House and Senate and independent think tanks would significantly expand Social Security benefits. In my view, an overall expansion of Social Security benefits – that is, an increase in the *total benefits* the program has promised to pay – would be costly and largely ineffective. The program is already underfunded by $10-$15 trillion over 75 years (based on Trustees or CBO projections). Raising benefits makes the system's funding problems more difficult to solve. Just as importantly, most expansion plans would not effectively target benefit increases on individuals who are currently poorly served by the program, such as those who retire after only short attachment to the labor market. Raising benefits across the board would not help these individuals very much. There *are* reforms that would help improve the social insurance protections provided by Social Security. For instance, I have proposed a universal benefit paid to all retirees regardless of work experience that would effectively eliminate poverty in old age. But once such reforms are implemented, there is little need to increase the size of the program. Thus, policymakers should focus on making Social Security work better rather than simply assuming that "more is better."
2. There are two ways to consider targeted reforms for Social Security. One is to focus on individuals who have low lifetime earnings but do not receive adequate benefits from the program. For instance, low-income individuals with little attachment to the labor force may not even qualify for a Social Security benefit. Likewise, a couple with long careers at low wages will receive benefits, but may not receive as much (relative to their earnings or contributions) as a high-income household with a single earner and a spouse who does not work. Targeted reforms can helps these classes of beneficiaries. A second approach is to consider individuals who might receive decent treatment by Social Security, but are unlikely to be able to save enough outside of Social Security to provide of a decent retirement income. These may include those who are not offered pension plans through work. In addition, some research points to single women as being likely to fall short in retirement. For these individuals, however, the Social Security benefit formula may not be able to target benefits adequately. Thus, efforts to expand retirement saving outside of Social Security – such as through automatic enrollment in employer pension plans or the provision of savings accounts for workers who are not offered a retirement plan on the job – may be the best option to increase retirement security.
3. The Retirement Earnings Test has two parts: first, for early retirees who continue to work, monthly benefits are reduced by 50 cents for each dollar of earnings over a given threshold (currently around $15,000). Second, once the individual reaches the full retirement age his benefits are recalculated to make up for anything benefits earlier lost to the RET. Over the course of an average lifetime, total benefits are about the same with or without the RET. However, many individuals are aware of only the first element of the RET and view it as a 50 percent "tax" on their benefits, over and above the other taxes they pay. As a result, many early

retirees work up to the earnings threshold but then stop, unaware that any benefits lost to the RET are "repaid" later. SSA has in the past not been very good at informing the public about both sides of the RET equation; the agency was very good at describing how benefits were reduced, but often would not tell the public about the benefit recalculation at the normal retirement age. During my time at SSA we redesigned the agency's educational material to more accurately describe the full effects of the RET so that the public would no longer view the RET as a "tax." This information has begun to be absorbed by financial advisors and newspaper columnists, which is a very helpful change. I am less sure whether the updated information is being consistently conveyed through SSA field offices.

4. In my testimony I noted that many individuals have a hard time predicting what their ultimate Social Security benefit will be, which makes it more difficult for them to decide how much to save for retirement and when to claim benefits. The basic reason for this "predictability risk" is simply that the Social Security benefit formula is extremely complex. To understand, first consider how a typical private sector defined benefit pension is calculated: workers simply multiply a percentage of their final salary by the number of years of employment. This allows for relatively easy estimates of future retirement benefits that can be updated "on the fly." But now consider how Social Security benefits are calculated. First, the worker's past earnings are indexed to the growth of average national wages. This involves multiplying the ratio of earnings in a past year to average wages economy wide in that year by the average wage in the year the worker turned sixty. Earnings past age sixty are not indexed. Next, Social Security averages the highest thirty-five years of indexed earnings. These average earnings are then run through a progressive benefit formula to produce the Primary Insurance Amount payable at the full retirement age, currently sixty-six. However, if this benefit is less than half of the benefit received by the higher earning spouse in a married couple, the lower earning spouse is eligible to receive a spousal benefit instead. Spousal benefits may be collected off the earnings record of former spouse, but only if the marriage lasted at least ten years. Whatever benefit is received is then reduced or increased based on whether benefits are claimed before or after the full retirement age, which is itself increasing for those born between 1954 and 1959 . Finally, the retirement earnings test may reduce benefits for early claimants who continue working. Few Americans are aware, however, that at the full retirement age benefits are increased to account for reductions due to the earnings test. In short, these are simply not the sorts of calculations most individuals can do on their own. My own research appears to show that the increasing distribution of the Social Security Statement has not improved near-retirees' abilities to predict their benefits.
5. SSA's field office employees and those who man telephone lines are given an extremely difficult job: the system itself is terribly complex, and more frequently today individuals are looking to exploit the technicalities of the system as part of "claiming strategies" to maximize benefits. In reality, it is difficult to expect SSA employees to know every aspect of the benefit formula, though in my experience SSA staff often know a great deal that even a policy analyst (such as myself) does not. Efforts to improve SSA's communications with the public should continue; I believe SSA's educational materials have improved and now the main issue is getting these messages to the public. But much of the problem is inherent to the program itself: if Social

Security is complex there is only so much that SSA staff can do to make it simple for participants. Congressional reforms should push for simplicity along with solvency. At the very least, reforms should not make the system more complex: for instance, some proposed “minimum” or “enhanced” benefits would require that individuals make a separate calculation of their benefits, on top of calculating benefits based upon their own earnings and comparing these to those they might be eligible for based on a spouse’s earnings. Thus, an individual would need to make three separate benefit calculations, which would produce almost hopeless complexity for many Americans.